



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0028	<b>Title:</b>	Exempt military pensions from state income tax
<b>Primary Sponsor:</b>	Ingraham, Pat	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	(\$6,251,919)	(\$6,444,138)	(\$6,641,984)	(\$6,845,618)
<b>Net Impact-General Fund Balance</b>	<u>(\$6,251,919)</u>	<u>(\$6,444,138)</u>	<u>(\$6,641,984)</u>	<u>(\$6,845,618)</u>

### Description of fiscal impact:

This bill would exempt military retirement pay based on length of service from the individual income tax. (Military disability pensions are exempt under current law.) This would reduce income tax revenue by about \$6.5 million per year.

### FISCAL ANALYSIS

#### Assumptions:

- Under current law, military disability payments are exempt from federal and state taxation but retirement pay based on length of service generally is taxable. This bill would exempt military retirement pay and survivor benefits from the state income tax, beginning in 2009.
- The Department of Defense produces a compilation of reports called "Military Compensation Background Papers." The latest edition, published in 2005, gives information on retirement pay through federal fiscal year 2004. In 2004, a total of 1,791,554 military retirees received \$34,712 billion in retirement pay, for an average of \$19,375. From 2000 to 2004, the number of military retirees increased at an average rate of 1.3% per year and average retirement pay increased at an average rate of 1.5% per year.
- In 2004, according to Global Insight, Montana had 0.3156% of the national population. This fiscal note assumes Montana had the same share of military retirees—5,654 (0.3156%×1,791,554) retirees in 2004.
- This fiscal note assumes that the number of retirees continues to grow at 1.3% per year.
- This fiscal note assumes that average retirement pay continues to grow at 1.5% per year.

6. The first \$3,600 of pension income is exempted for all taxpayers, but the exemption is reduced by \$2 for every \$1 that the taxpayer's federal adjusted gross income exceeds \$30,000. Many military retirees have other income. Some have adjusted gross income of less than \$30,000 and are eligible for the full \$3,600 exemption. Others have more than \$30,000 of adjusted gross income and are eligible for a smaller or no exemption. This fiscal note assumes that, on average, military retirees have \$3,000 of pension income exempted under current law.
7. The additional military retirement pay exempted each year by this bill is found by subtracting \$3,000 from the average pension and multiplying the result by the number of retirees.
8. Most military retirees will be in the 6.9% tax bracket. For some, the exemption in this bill would move them to a lower tax bracket, while others would remain in the 6.9% bracket. To account for this movement of some taxpayers to lower tax brackets, this fiscal note assumes that the reduction in tax liability is 5.8% of the amount of income exempted.
9. The following table summarizes assumptions 3-8:

	2009	2010	2011	2012	2013
Number of MT retirees	6,031	6,110	6,189	6,269	6,351
Average pay	\$20,872	\$21,185	\$21,503	\$21,826	\$22,153
Average exempted pay	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Average taxable pay	\$17,872	\$18,185	\$18,503	\$18,826	\$19,153
Total taxable pay	\$107,791,710	\$111,105,829	\$114,516,964	\$118,027,896	\$121,641,487
Tax liability at 5.8%	\$6,251,919	\$6,444,138	\$6,641,984	\$6,845,618	\$7,055,206

10. Each calendar year reduction in tax liability in the table above is assumed to show up as a reduction in revenue, resulting from lower payments and larger refunds, in the next fiscal year.
11. This bill would require an additional line on Schedule II of the Montana income tax return and additional instructions. These changes and accompanying changes to the Department of Revenue's data processing systems would be made as part of the annual update process. No financial costs are estimated unless the change requires adding a page to the income tax booklet.

	<b><u>FY 2010 Difference</u></b>	<b><u>FY 2011 Difference</u></b>	<b><u>FY 2012 Difference</u></b>	<b><u>FY 2013 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Revenues:</u></b>				
General Fund (01)	(\$6,251,919)	(\$6,444,138)	(\$6,641,984)	(\$6,845,618)
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$6,251,919)	(\$6,444,138)	(\$6,641,984)	(\$6,845,618)

**Technical Notes:**

In the past, Montana provided an exemption for state employee pensions, which the state supreme court found to be unconstitutional. The same or similar constitutional issues may arise here.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*